

April 15, 2013

The Honorable Jim Gerlach, Chair
The Honorable Linda Sanchez, Vice Chair
United States House of Representatives Committee on Ways and Means
Manufacturing Working Group

Dear Congressman Gerlach and Congresswoman Sanchez,

On behalf of the hundreds of members of the Medical Device Manufacturers Association (“MDMA”), we commend the United States House of Representatives, Committee on Ways and Means (“Committee”) for examining meaningful reform of the tax code. MDMA appreciates the opportunity to provide comment for the Committee’s Manufacturing Working Group on Tax Reform. MDMA’s mission is to ensure that patients have access to the latest advancements in medical technology, most of which are developed by small, research-driven medical device companies.

Background of the Medical Device Industry

The medical device industry is a true American manufacturing success story. Our industry consists primarily of small manufacturing companies which have been the driving force in job creation. In fact, more than 80 percent of medical device companies employ fewer than 50 people, yet such small companies drive most of the innovation and product development in the medical technology sector. Jobs in the industry pay an average of 15 percent more than the average U.S. manufacturing job. The average salary of all employees in the medical device industry is \$60,000 and the industry paid \$24.6 billion in salaries in 2008.

Where other traditional manufacturing industries in the U.S. have all but left, the medical device industry has grown and has created a cascading effect around communities throughout the nation. A perfect example of the positive effect the industry has in the manufacturing sector can be seen in many traditional “rust belt” areas of the country. For instance, numerous contract manufacturers that once served the automotive and appliance industries have retooled their facilities and now provide manufacturing services for numerous medical device companies. The multiplier effect on the industry is quite significant. For every job created in the device industry, close to five others are created in an ancillary, supporting role. In total, there are approximately 400,000 jobs total in the industry, and over 2 million in support of the industry.

Finally, the industry has an outstanding track record in international exports. Where many U.S. manufacturing industries are in a trade deficit, the medical device industry maintains a positive trade surplus. The U.S. is the only net exporter of medical devices in the world and the industry generates a \$5.4 billion trade surplus, including exports to both to China and India.

The Medical Device Excise Tax

As the Working Group examines potential changes to the tax code for U.S. manufacturers, it should examine all tax policies that hinder the ability of a manufacturer to have certainty, predictability and confidence in the market. Moreover, the tax code should create an environment that fosters innovation and does not discourage future investment.

There are numerous provisions within the tax code that manufacturers view as helpful. For instance the long-standing research and development tax credit is a positive recognition of the importance of reinvestment into a company. This credit further promotes innovation and the growth of U.S. manufacturing jobs. However, since this tax is not permanent, it creates a level of unpredictability for manufacturers who have to speculate whether or not the credit will be renewed each year.

While there are many provisions within the tax code that our membership follows, of utmost importance and concern is the medical device excise tax. As part of the Patient Protection and Affordable Care Act of 2010, and the subsequent Healthcare and Education Reconciliation Act of 2010, the medical device industry is now liable for a new excise tax on the majority of products manufactured or imported in the U.S. Specifically, the law created a 2.3% excise tax on the total revenue for most medical device companies. This tax, as applied, impacts companies from the very largest to the very smallest. In fact, companies that are not yet earning a profit are liable for the tax.

The impact of the tax cannot be understated. According to the Manhattan Institute and Tax Foundation, nearly 45,000 thousand jobs in the medical device industry will be lost as a result of the tax. Unfortunately, some of these job losses have already taken place. By some accounts, the industry has already lost close to 10,000 jobs as a result of the tax. This includes job losses from some of the largest companies in the industry to many of the smallest. In fact, in a recent hearing before the House Ways and Means Committee, a small medical device manufacturer executive testified to the fact that his company had already laid off over 25 employees as a direct result of the new excise tax liability. These were the first layoffs in this company's twenty year history unfortunately.

In addition to companies reducing headcount, others are scrapping plans to hire additional employees. One company recently announced that they will forgo nearly 200 planned hires that were part of a long-term strategic hiring plan. Other companies are scrapping plans to expand operations while others have significantly reduced spending on research and development projects. All in all, this is a recipe that is already significantly impacting one of the leading manufacturing industries in the United States.

Conclusion

As the Working Group moves towards recommendations on comprehensive tax reform, MDMA strongly urges you to include a full repeal of the medical device excise tax. This tax directly and indiscriminately penalizes one of the world's leading manufacturing industries. The U.S. is the worldwide leader in the development and the manufacturer of innovative medical technologies that produce significantly improved health outcomes and reduce healthcare costs.

We are encouraged by the bipartisan willingness to examine this and all tax issues in the context of comprehensive tax reform. MDMA is ready and willing to be a resource to the Committee throughout the process.

Sincerely,

A handwritten signature in blue ink that reads "Thomas C. Novelli". The signature is written in a cursive, flowing style.

Thomas C. Novelli
Vice President of Government Relations
Medical Device Manufacturers Association